ARIZONA STATE UNIVERSITY ■ COLLEGE OF BUSINESS
CENTER FOR BUSINESS RESEARCH

Metro Phoenix Home Appreciation

Townhouses Lag Single Family Homes

The median rate of appreciation for single family homes in the Phoenix metropolitan area remained near 3 percent in 1986, fractionally less than in 1984 and 1985. For townhouses and condominiums (hereafter referred to as townhouses), the appreciation rate is available for the first time. At 1.3 percent in 1985 and 0.7 percent in 1986, townhouses appreciated at less than one-half the rate for single family homes.

Of all homes sold more than once between 1981 and 1986, 22,265 constitute the single family data base; 75 percent of these homes gained in price. Another 1,973 homes make up the townhouse data base; of these, only 61 percent recorded a price increase. Throughout this article, less detail is provided on townhouses because of their relatively small number.

HOUSING APPRECIATION 1981-86

The appreciation rate for single family homes has been nearly stable since late 1982, though a slight downward trend is now evident (see Figure I). In contrast, the townhouse appreciation rate has decelerated more sharply since early 1984.

Between 1983 and 1986, the appreciation rate did not keep up with inflation in consumer prices (see Table 1). While increases in median sales price measures, even for

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'86 Valley Home Sales Set Record for '80s

The number of homes sold in the Phoenix metropolitan area during 1986 soared 13 percent past the 1985 level to 63,510. Improved affordability (see page 5), primarily due to falling mortgage interest rates, spurred sales, particularly during the third quarter.

Sales during the fourth quarter dropped 19 percent from the third quarter record, though the seasonally adjusted decline was only 11 percent. Sales in each subcategory decreased.

For the entire year, the number of sales exceeded the 1985 total in each category except new single family homes (see Table 1). Fewer sales were recorded in this category than during 1983, 1984 and 1985. New townhouse and condominium sales rose slightly from the low 1985 level but did not reach the 1984 total.

Sales of existing homes, both single family and townhouse/condominium, set records. The latter experienced a large increase from the depressed level of 1985.

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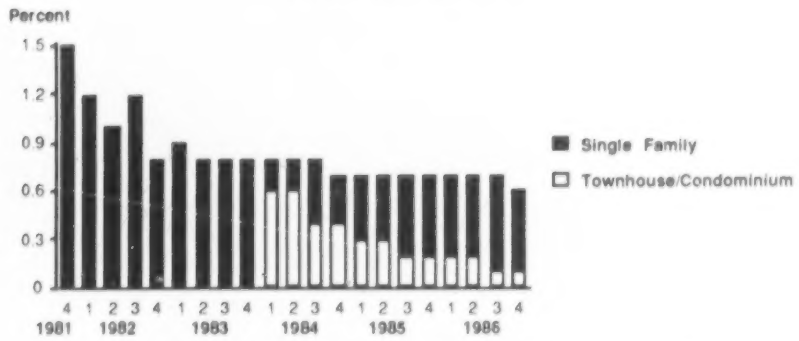
townhouses, exceeded the appreciation and inflation rates, the higher rates resulted from a disproportional gain in sales of larger homes. After adjusting for the size of existing single family homes sold, the increase in the median sales price per square foot approximated the appreciation rate.

By Price

The strongest influence on the rate of appreciation is home price. Homes that sold for more than $100,000 appreciated more than twice as much as those that sold for less than $60,000, a significant difference for both single family homes and townhouses. This relationship between appreciation and price holds after adjusting the sales price by the size of the home. Single family homes that sold for a price per square foot in excess of $53 appreciated 1.0 percent per quarter, compared to a rate of 0.6 percent per quarter for less expensive homes.

FIGURE I
MEDIAN RATE OF METRO PHOENIX HOME APPRECIATION
By Quarter of Last Sale



Note: Data for townhouse/condominium category are not available prior to 1984

Source: Center for Business Research, College of Business, Arizona State University

TABLE 1
INFLATION MEASURES

	Percent Change				
	1983	*1984*	*1985*	*1986*	*1983-86 Total**
Metropolitan Phoenix Consumer Price Index	1.6	5.8	5.0	1.3	14.3
U.S. Consumer Price Index	3.2	4.3	3.6	1.9	13.6
Phoenix Area					
All single family homes:					
Appreciation rate	3.6	3.2	2.9r	2.8	13.1
Median sales price	4.8	6.3	4.0	6.0	22.9
New single family homes:					
Appreciation rate	5.7	4.7	4.8r	4.2	20.9
Median sales price	6.0	9.9	8.1	7.4	35.2
Existing single family homes:					
Appreciation rate	2.9	2.7	2.6r	2.4	10.8
Median sales price	4.6	4.8	3.2	6.1	20.0
Median sales price per square foot	2.9	3.0	2.2	3.5	12.2
All townhouses and condominiums:					
Appreciation rate	NA	NA	1.3	0.7	NA
Median sales price	1.8	8.8	1.0	3.5	15.6

*Calculated at a compound rate

NA: Not available

rRevised

Source: Center for Business Research, College of Business, Arizona State University. U.S. Consumer Price Index is from the U.S. Department of Labor, Bureau of Labor Statistics.

A closer look at the relationship between single family home price and appreciation reveals that new homes that sold for approximately $115,000 had the peak rate of appreciation. The rate for new homes that sold for more than $150,000 was no higher than for those that sold for $80,000 to $90,000. For resale homes, the appreciation rate stabilized at 1 percent per quarter for homes that sold for more than $110,000.

New vs. Resale Homes

While a "new" single family home – defined as one built and later resold between 1981 and 1986 – appreciated faster than an existing home in all price ranges, the difference is largely illusory. The more rapid appreciation rate of new homes – nearly double the rate of resale homes – lasted only until the first resale of the home. At least a portion of the gain reflects additional expenses that most buyers of new homes incur in making improvements, such as landscaping, which add to the value of the property. Further, new homes generally are more expensive than resale homes, even on a price-per-square-foot basis. Thus, new homes appreciate faster mainly because of improvements and higher prices.

In contrast to single family homes, new townhouses appreciated moderately faster than resale townhouses; the differential relates to a smaller difference in price between new and existing townhouses. The wide differential in the appreciation rates of townhouses and single family homes is partially explained by lower prices of townhouses. Other factors, however, such as relatively low demand for townhouses, probably better explain the difference.

By Geographic Area

Housing appreciation rates vary throughout the Valley (see Table 2), but most of the deviation can be explained by price and the proportion of new homes. While the 1981-86 appreciation rate in a number of districts was significantly different from the metro total in a statistical sense, the difference usually was slight in a practical sense. The annualized rate was between 2 and 4 percent in all districts except Sun City West.